

The Accounting Officer

Ubuntu Local Municipality
78 Church Street
Victoria West

7070

Date: 30 November 2015

Reference: 21431REG14-15

Dear Sir

Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Ubuntu Local Municipality for the year ended 30 June 2015

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa section 121(3) of the Municipal Finance Management Act of South Africa.
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements and the reported performance against pre-determined objectives. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) of the MFMA you are required to include the audit report in the municipality's annual report to be tabled.
4. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.



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5. Prior to printing or copying the annual report which will include the audit report you are required to do the following:

- Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
- The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.

6. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.

7. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely

Signed

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Senior Manager NCBU: Senzosenkosi Mthembu

Enquiries: Unice Ramarumo

Telephone: (053) 836 8800

Report of the auditor-general to the Northern Cape provincial legislature and the council on Ubuntu Local Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Ubuntu Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, cash flow statement and Statement of comparison of budget and actual amounts statement of financial position for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), and the Division of Revenue Act of South Africa, 2014 (Act No. 10 of 2014) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Revenue from non-exchange transactions

6. I was unable to obtain sufficient appropriate audit evidence for revenue from fines for current and prior year as the municipality did not have adequate systems to maintain records of fines. I could not confirm the revenue from fines by alternative means. Consequently, I was unable to determine whether any adjustment to the revenue from fines stated at R 49 370 974 (2014: R52 473 517) in the financial statements was necessary.
7. During 2014, I was unable to obtain sufficient appropriate audit evidence that management had properly levied and accounted for all property rates for the current year, due to the status of the accounting records. I was unable to property rates by alternative means. Consequently, I was unable to determine whether any adjustment relating to property rates stated at 2014: R 2 441 770 in the financial statements was necessary. My audit opinion on the financial statements for the period ended 30 June 2014 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

Receivables from non-exchange transactions

8. I was unable to obtain sufficient appropriate audit evidence regarding receivables from fines and the related provision for doubtful debts for current and prior year due to the status of the accounting records. I was unable to confirm the receivables from non-exchange transactions and the related provision by alternative means. Consequently, I was unable to determine whether any adjustment relating to receivables from non-transactions stated at R94 400 021 (2014: R 53 943 968) and the related provision stated at R72 546 151 (2014: R 37 738 851) in the financial statements was necessary.
9. I was unable to obtain sufficient appropriate audit evidence regarding the rates receivables from non-exchange transactions as the listing provided by the municipality did not agree to the financial statements. I was unable to confirm rates disclosed in note 20 by alternative means. Consequently, I was unable to determine whether any adjustment relating to receivables from non-exchange transactions as stated at R 13 261 562 and the related provision stated at R 9 291 898 in the financial statements was necessary.

Revenue from exchange transactions

10. I was unable to obtain sufficient appropriate audit evidence regarding the rebates on service charges as the municipality did not provide a list of all people that qualify to be indigents. I was unable to confirm rebates relating to indigents by alternative means. Consequently, I was unable to determine whether any adjustment relating to rebates on service charges stated at R 3 749381 in the financial statements was necessary.

11. I was unable to obtain sufficient appropriate audit evidence regarding other income, licences and permits, rental of facilities and equipment, as the register was not maintained. I was unable to confirm other revenue by alternative means. Consequently, I was unable to determine whether any adjustment relating to other revenue stated at R1 856 727(2014: R1 670 137) in the financial statements was necessary

Receivables from exchange transaction

12. I was unable to obtain sufficient appropriate audit evidence regarding receivables from exchange transactions as the listing provided by the municipality did not agree to the financial statements. In addition, the municipality did not have adequate systems in place to maintain complete records of receivables from exchange transactions. Due to lack of systems Due to lack of systems I was unable to determine whether any further adjustment to receivables from exchange transactions as stated at R 45 897 013 and the related provision stated at R 41 660 426 in the financial statements was necessary.

Expenditure

13. I was unable to obtain sufficient appropriate audit evidence regarding repairs and maintenance, operating grant expenditure and general expenditure as payment support for expenditures made was not provided. I was unable to confirm operating expenditure by alternative means. Consequently, I was unable to determine whether any adjustment relating to the items listed above as included under expenditure and stated at R 11 012 302 (2014:R 30 613 455) in the financial statements was necessary.

Payables from Exchange Trade payables

14. The municipality did not correctly classify accruals of R 1 067 935 as required by GRAP 1, Presentation of Financial Statements. In addition debtors with credit balances of R 557 871 were not reclassified to payables. As a result payables from exchange transactions and receivables from exchange transactions were understated respectively by R1 625 805 and R 557 871. Furthermore, I was unable to obtain sufficient appropriate audit evidence regarding sundry creditors of R634 944 included in payables from exchange transactions and I could not confirm this by alternative means. Consequently, I was unable to determine whether any further adjustment to payables from exchange transactions stated at R 22 752 682 as disclosed in note 8 to the financial statements was necessary.

Irregular Expenditure

15. Section 32 of the MFMA requires disclosure of the particulars of any irregular expenditure incurred by the municipality. The audit revealed various transactions which were in contravention to the supply chain management requirements, resulting in irregular expenditure being understated by R 7 881 786. In addition, the municipality did not have adequate systems in place to maintain complete records of irregular expenditure. Due to lack of systems I was unable to determine whether any further adjustment to irregular expenditure as disclosed in note 42.3 to the financial statements was necessary.

Capital Commitments

16. During 2014, I was unable to obtain sufficient appropriate audit evidence regarding capital commitments due to capital commitments disclosed not being supported with appropriate records. I was unable to confirm capital commitments by alternative means. Consequently, I was unable to determine whether any adjustment relating to capital commitments stated at 2014:R12 723 000 in the financial statements was necessary. My audit opinion on the financial statements for the period ended 30 June 2014 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

Property, plant and equipment

17. I was unable to obtain sufficient appropriate audit evidence regarding additions of infrastructure assets, as supporting documentation was not provided. I was unable to confirm additions of infrastructure assets by alternative means. Consequently, I was unable to determine whether any adjustment relating to additions of infrastructure assets stated at R 10 460 156 as disclosed in note 11 was necessary.

Aggregation of immaterial uncorrected misstatements

18. The financial statements were materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the following items making up the statement of financial position and the statement of financial performance and the notes to the financial statements:
- Staff leave accrual of R758 766 as included in the disclosed balance of R1 585 554.
 - Remuneration of councillors reflected as R 2 520 357 was overstated by R 470 763.

In addition, I was unable to obtain sufficient appropriate audit evidence and to confirm the following items by alternative means:

- Contingent liabilities of R316 741 as included in contingent liabilities as disclosed in note 50 to the financial statements.
- Employee Cost of R 441 485 as included in the disclosed balance of R 29 356 489.
- In 2014, additions to community assets as included in property plant and equipment of R1 019 350 in the disclosed balance of R 1 019 350.

Qualified opinion

19. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Ubuntu Local Municipality as at 30 June 2015 and its financial performance and cash flows for the year then ended, in accordance with SA standards of GRAP and the requirements of the MFMA, and DoRA.

Emphasis of matters

20. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

21. As disclosed in note 37 of the financial statements, the corresponding figures for 30 June 2014 have been restated as a result of errors discovered during 2015 in the financial statements of the municipality at, and for the year ended, 30 June 2014.

Material impairments

22. As disclosed in note 19 and 20 of the financial statements, the municipality had receivables from exchange and non-exchange transactions totalling R45 897 013 and R 108 537 433 respectively. A provision of R41 660 426 and R81 838 048 was created for irrecoverable debt.

Material losses

23. As disclosed in note 42.4 to the financial statements, material losses of 2 984 400 kWh of electricity were lost as a result of distribution losses of unaccounted electricity.

Additional matters

24. I draw attention to the matters below. My opinion is not modified in respect of these matter

Unaudited supplementary schedules

25. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedule(s) and, accordingly, I do not express an opinion thereon.

Unaudited disclosure notes

26. In terms of section 125(2) (e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.(Note 41.5)

Report on other legal and regulatory requirements

27. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

28. I am unable to report on the usefulness and reliability of the performance information, as the annual performance report of the municipality was not prepared as required by section 46 of the Municipal Systems Act and section 121(3)(c) of the MFMA .

Compliance with legislation

29. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Budgets

30. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.
31. The total unforeseen and unavoidable expenditure incurred exceeded 5% of own revenue, in contravention of Municipal Budget and Reporting Regulation 72.
32. Expenditure was approved as unforeseen and unavoidable which was considered by the council but not included in the approved annual budget, in contravention of Municipal Budget and Reporting Regulation 71(2).

Financial statements, performance and annual reports

33. The annual performance report was not prepared for the financial period under review, as required by section 46 of the MSA.
34. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the Municipal Finance Management Act. Material misstatements of expenditure and revenue identified by the auditors in the submitted financial statements were subsequently corrected. The uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.
35. The 2013/14 annual report was not tabled in the municipal council within seven months after the end of the financial year, as required by section 127(2) of the Municipal Finance Management Act.
36. A written explanation was not submitted to council setting out the reasons for the delay in the tabling of the 2013/14 annual report in the council, as required by section 127(3) and 133(1)(a) of the Municipal Finance Management Act.
37. Oversight report, containing comments on the annual report, was not adopted by council within two months from the date on which the 2013/14 annual report was tabled, as required by section 129(1) of the Municipal Finance Management Act.

Audit committees

38. An audit committee was not in place, as required by section 166(1) of the Municipal Finance Management Act.
39. A performance audit committee was not in place and the audit committee was not used to fulfil the performance audit committee function, as required by Municipal planning and performance management regulation 14(2)(a).

Internal audit

40. The internal audit unit did not function as required by section 165(2) of the Municipal Finance Management Act, in that:

- Internal Audit Unit did not report to the audit committee on the implementation of the internal audit plan.
- Internal Audit Unit did not advise the accounting officer on matters relating to internal audit, internal controls, accounting procedures and practices, risk and risk management

41. The internal audit unit did not advise the accounting officer on matters relating to compliance with the Municipal Finance Management Act, the Division of Revenue Act and other applicable legislation, as required by section 165(2)(b)(vii) of the Municipal Finance Management Act.

Revenue Management

42. A credit control and debt collection policy was not implemented, as required by section 96(b) of the Municipal Systems Act and section 62(1)(f)(iii) of Municipal Finance Management Act.

43. An adequate management, accounting and information system which accounts for revenue, debtors and receipts of revenue was not in place, as required by section 64(2)(e) of the Municipal Finance Management Act.

44. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the Municipal Finance Management Act.

Procurement and contract management

45. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM regulation 17(a) & (c).

46. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).

47. Sufficient appropriate audit evidence could not be obtained that invitations for competitive bidding were advertised for a required minimum period of days, as required by SCM regulation 22(1) & 22(2).

48. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding and quotations, as required by SCM Regulations 21(b) and 28(1)(a) and Preferential Procurement Regulations.

49. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to suppliers based on preference points that were allocated

and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.

50. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to bidders that scored the highest points in the evaluation process, as required by of section 2(1)(f) of Preferential Procurement Policy Framework Act.
51. Awards were made to bidders other than those recommended by the bid evaluation committee without ratification by the accounting officer, as required by SCM regulation 29(5)(b).
52. Contracts and quotations were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, as required by SCM regulation 43.
53. Bids were not always evaluated by bid evaluation committee which were composed of at least one SCM practitioner of the Municipality as required by the SCM regulation 28 (2).
54. Sufficient appropriate audit evidence could not be obtained that bid specifications were drafted by bid specification committees which were composed of one or more officials of the municipality as required by SCM regulation 27(3).
55. Sufficient appropriate audit evidence could not be obtained that bid specifications for procurement of goods and services through competitive bids were drafted in an unbiased manner that allowed all potential suppliers to offer their goods or services, as per required by SCM regulation 27(2)(a).
56. Sufficient appropriate audit evidence could not be obtained that all quotations were awarded in accordance with the legislative requirements and a procurement process which is fair, equitable, transparent and competitive, as not all payment vouchers were submitted for audit.
57. Quotations were accepted from prospective providers who are not registered on the list of accredited prospective providers and do not meet the listing requirements prescribed by the SCM policy in contravention of SCM regulation 16(b) and 17(b).
58. Bid adjudication was not always done by committees which were composed in accordance with SCM regulation 29(2).
59. The preference point system was not applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act and SCM regulation 28(1)(a).
60. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded only to bidders who submitted a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).

Human resource management and compensation

61. The municipality did not develop and adopt appropriate systems (policies) and procedures to monitor measure and evaluate performance of staff in contravention of Municipality systems Act sec 67(d).

62. Senior managers did not sign performance agreements, as required by section 57(2)(a) of the Municipal Systems Act.

Expenditure management

63. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the Municipal Finance Management Act.
64. Reasonable steps were not taken to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section [62(1)(d) of the Municipal Finance Management Act.

Conditional grants received

65. The municipality did not evaluate its performance in respect of programmes or functions funded by the Local Government Financial Management Grant, Municipal Systems Improvement Grant and Municipal Infrastructure Grant allocation, as required by section 12(5) of the Division of Revenue Act.

Asset and liability management

66. The municipality did not establish an investment policy that was adopted by council, as required by section 13(2) of the Municipal Finance Management Act and Municipal investment regulation [3(1)(a)

Consequence management

67. Unauthorised and Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section [32(2)(a)(ii) of the Municipal Finance Management Act.

Internal control

68. I considered internal control relevant to my audit of the financial statements, and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion, the findings on compliance with legislation included in this report.

Leadership

69. The leadership did not provide effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the interests of the entity. The municipality did not enforce compliance with applicable laws and regulations. And there was no consequence management for those that did not conduct the business of the municipality in line with the rules and regulations.
70. The leadership did not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls. Lack of management oversight on preparing, approving and implementing the policies such

as fraud prevention, code of conduct, fraud hotline, risk management strategy and draft recruitment policy.

71. The municipality did not implement effective HR management to ensure that adequate and sufficiently skilled resources are in place and that performance is monitored. Financial reporting was given to the external service provider and there was not report for performance information.
72. The leadership did not always have established and communicated policies and procedures to enable and support understanding and execution of internal control objectives, processes and responsibilities.
73. The municipality did not develop and monitor the implementation of action plans to address internal control deficiencies. Internal and audit committee were not effectively used or functional as oversight. Consultants were utilised for the compilation of financial reports, however this is not sufficient to address internal control deficiencies.

Financial and performance management

74. There were no proper and effective systems and controls in place as evidenced by:
 - Weekly and monthly reconciliations that were not always adequately prepared for financial items during the year including payroll, revenue, creditors, and debtors this has resulted in the municipality being required to rely on manual reconciliation at year end. Due to the significant increase in volume of manual reconciliation required, assurance processes were not implemented timely to ensure information is accurate and complete. As a result, a number of errors in the reconciliations were identified by the external auditors.
 - Municipal documents were not always easily accessible when needed.
75. The municipality did not prepare regularly, accurate and complete financial and performance reports that are supported and evidenced by reliable information. Numerous changes had to be made to the records during the audit and some corrections were that could not be made resulted in the audit opinion being qualified.
76. The municipality did not always review and monitor compliance with applicable legislation.

77. The municipality did not design and implement formal controls over IT systems to ensure the reliability of the systems and the availability, accuracy and protection of information.

Governance

78. The financial and risk unit was not established. The municipality did not conduct risk assessment and did not identify the risks relating to the achievement of the financial and performance reporting objectives. Controls were not always developed to prevent, detect and correct material misstatement in the financial and performance reporting.
79. The internal audit unit did not function as required by section 165(2) of the MFMA and also did not have the guidance from the Audit Committee as it was not established.
80. An audit committee was not in place, as required by section 166(1) of the MFMA. Numerous findings were reported on compliance, financial and performance reporting that could have been minimised by the guidance from the audit committee. The municipality did not utilise the shared services available at the district municipality.

Auditor General
Kimberley

30 November 2015



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